# Department of Finance

## Annual Report For Fiscal Year 2009-10

Newfoundland
Labrador

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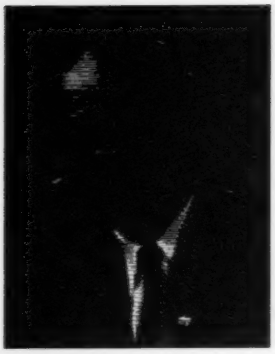
## Message from the Minister



In accordance with Government's commitment to greater accountability and transparency, I am pleased to present the 2009-10 Annual Report for the Department of Finance. Its purpose is to account for the progress made towards achieving the intended results of the 2008-11 Strategic Plan and to measure performance within key business areas. As Minister responsible for the Department of Finance, my signature below is indicative of my accountability for the actual results reported within this document.

2009-10 was a difficult year for most economies throughout the world and Newfoundland and Labrador was no exception. Real Gross Domestic Product fell 8.9% as a result of a decline in real exports which was predominantly the result of natural declines in oil production. Employment declined 2.5% to 214,900 due to the negative impact of the recession on many resource industries. Despite the global recession however, personal income in the Province grew 3.9% due to increases in the minimum wage and general wage gains. Retail sales expanded 2.6% to $7.2 billion, driven by income gains and solid consumer confidence. Newfoundland and Labrador recorded the strongest retail sales growth among all Canadian provinces.

Despite this economic uncertainty, the Department of Finance came through with a solid budget for 2010-11. Substantial work was achieved on initiatives to improve the Province's fiscal situation ensuring that Newfoundland and Labrador maintained its competitive tax regimes; citizens were provided opportunities to experience financial security; and industries were supported by a strong and competitive business environment. These achievements were the result of the hard work and prudent decisions of the Department of Finance.

As seen from the many accomplishments over the last year, employees of the Department of Finance are committed to providing high-quality service to this Province. I would therefore like to take this opportunity to acknowledge the outstanding efforts of these employees. I look forward to their continued support and dedication.

Sincerely,

Honourable Thomas W. Marshall, Q.C
Minister of Finance

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## Introduction

The Department of Finance plays a unique role within the Government of Newfoundland and Labrador. As a central agency, it is responsible for providing strategic leadership across the public service on the financial and economic implications of its policy decisions; overseeing the management and control of provincial finances to ensure appropriate use of public funds; and providing centralized and corporate shared services to other government departments (e.g. economic analysis, statistical services, and the administration of such things as compensation and benefits, internal audit services and payment processing).

To fulfill these responsibilities during the 2009-10 fiscal year the Department employed 404 individuals on a fulltime, temporary, seasonal, or contractual basis. These employees are professionally trained in such areas as accounting, economics, statistics, financial management, public policy, information technology and management, administrative support, and human resources. Although the Department is organized in a traditional manner (i.e., segmented into branches and divisions), employees work together across divisional lines to achieve common goals.

This annual report highlights activities and operations for 2009-10 and provides information about the Department's mandate, the environment in which it operates and the manner in which it supports the overall goals and directions of the Government of Newfoundland and Labrador.

## Departmental Overview

### Mandate:

The Department of Finance plays a key role in establishing, implementing and reviewing Government's financial management, economic, fiscal and taxation policies. These responsibilities are primarily achieved through the provision of timely analysis and advice to Cabinet and its committees, particularly the Treasury Board Committee for which the Minister of Finance serves as President. The Department is also the central agency responsible for the provision of financial policy advice and various services to other government departments and its employees. The mandate of the Department also includes the supervision, control and direction of all matters related to:

- Financial planning and budget monitoring
- Tax policy and the administration of tax statutes
- Fiscal policy
- Federal/provincial fiscal arrangements
- Debt management
- Project analysis
- Administration of pensions benefits
- Administration of group and general insurance
- Comptrollership and financial management
- Economic policy and statistics
- Management of compensation and benefits for government employees

The mandate of the Department also includes the development and future implementation of a new financial model for the administration of accounts receivables and payables.

The mandate of the Department of Finance is derived from the *Financial Administration Act*, the Department of Finance Notice to the *Executive Council Act* and various other government directives. For further information please refer to the Department of Finance's Strategic Plan 2008-11, available on-line at www.gov.nl.ca/fin/.

### Lines of Business:

The mandate of the Department of Finance is delivered to its primary clients through the following four principal lines of business:

**1.0 Financial Planning and Benefits Administration**

The Department of Finance coordinates the preparation of Government's annual budget and then monitors expenditures by government departments. It also sets financial policies for government entities, provides advice related to multi-year expenditure plans and recommends allocations of financial resources. Operational support and financial and analytical advisory services are also

**Mission**

By 2011, the Department of Finance, in its commitment to strong fiscal management, will have supported Government in the effective management of the Province's finances.

provided to the Treasury Board Committee of Cabinet to support their financial management responsibilities. Similar financial expertise is also provided to the other committees of government, as well as government departments in support of the Cabinet decision-making process. Additionally, the Department administers six provincial pension plans and develops and manages the policies, programs and contracts respecting risk management and group insurance for select government entities and public sector employees/retirees.

**Vision**

A vibrant, self-reliant economy and prosperous people.

**2.0 Taxation and Fiscal Policy**

The Department of Finance develops options for taxation reform; assesses the implications of changes to existing provincial taxation and fee policies; and, implements legislative measures in support of Government's tax and fiscal policy priorities. It also participates in the negotiation and monitoring of federal-provincial tax and fiscal agreements and forecasts, analyzes and monitors provincial revenues. The Department manages the Province's borrowing and debt servicing programs; provides centralized financial and economic impact analysis of specific projects to assist Government in decision making and/or policy development; and administers various provincial taxes, rebates and incentive programs, which include:

- direct equity tax credit program
- financial corporations' capital tax
- gasoline tax
- health and post-secondary education tax
- home heating rebate program
- insurance companies tax
- mining and mineral rights tax
- parental benefits programs
- retail sales tax
- school tax
- tobacco tax
- utilities tax

**3.0 Office of the Comptroller General**

The Department of Finance controls and accounts for the receipt and disposition of public money through the development of financial policies and procedures, administration of applicable legislation and the preparation of the provincial financial statements (i.e. Public Accounts) and related financial reports. The Department also develops and maintains government-wide revenue and expense systems and ensures that effective financial management controls, systems and accounting procedures are in place and government departments are properly accounting for their revenues and expenses. These systems and procedures are in place to ensure that no payment of public money occurs that is in excess of the appropriations provided by the House of Assembly and applicable legislative authority. Professional advisory services are also provided to government departments in the areas of: financial management, accounting and systems; financial policy development and implementation; internal auditing; and financial reporting. Corporate shared services are also delivered by this Department to other government departments. The Department of

Finance administers and processes payroll, time and attendance transactions for government departments and develops business processes and related policies that will impact accounts payable and accounts receivable.

**4.0 Economics and Statistics**

The Department of Finance analyzes and forecasts the macroeconomic environment, which feeds into the Province's revenue projections. It also provides economic impact assessments and special studies related to policy, economic events and projects. It maintains and operates the Newfoundland and Labrador Econometric Model, the Input/Output Model, and the Population Projection Model and is responsible for the annual publication of The Economy and The Economic Review. The Department also fulfills a vital statistical role for Government by collecting, storing and disseminating information that is accessible to clients while guaranteeing confidentiality and privacy of individual information. This is achieved through the Newfoundland and Labrador Statistics Agency under the authority of the *Statistics Agency Act* which mandates the Agency. The Department acts as Government's official point of contact with Statistics Canada, develops and provides focused sub-provincial data through Community Accounts and provides expertise in spatial analysis and socio-economic simulation modeling.

## Organizational Structure:

The effective and efficient delivery of its programs and services is supported by an organizational structure that consists of the four distinct branches:

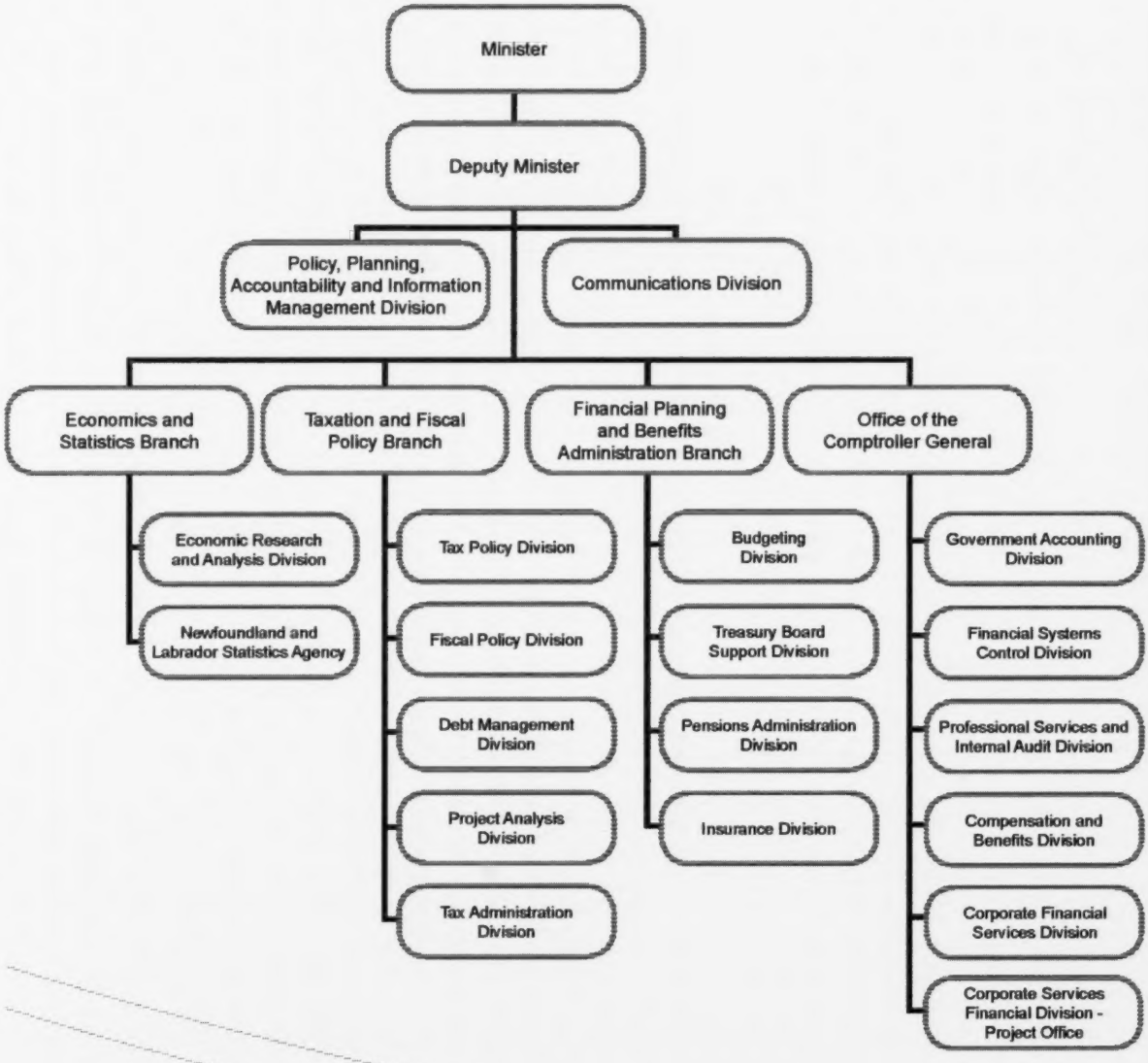
- Financial Planning and Benefits Administration
- Taxation and Fiscal Policy
- Office of the Comptroller General
- Economics and Statistics

All four Branches are supported by the following two divisions, both of which report directly to the Deputy Minister:

- **Policy, Planning, Accountability and Information Management Division** - primarily responsible for the development, coordination and implementation of the Departments' planning and reporting requirements, which includes the preparation of the Department's Strategic and Operational Plans, and the Annual Report. This Division also takes the lead role in implementing work planning processes, coordinating learning and development initiatives; implementing strategies identified in the Department's Workforce Plan, and organizing the legislative agenda and ministerial briefing binder. The Division is also responsible for developing, implementing and monitoring compliance with information management policies and procedures.

- **Communications Division** - responsible for the provision of strategic communication advice and support to the Minister of Finance and senior officials. It is also responsible for the management and direction of external communications and serves as the key media contact for the Department of Finance.

The following organizational chart depicts the reporting relationships that currently exist within the Department of Finance:



## Agencies, Boards and Commissions:

The ministerial portfolio for the Honourable Tom Marshall includes an oversight role for the following public bodies:

*Entities with a March 31st fiscal year end:*

- Newfoundland and Labrador Liquor Corporation
- Newfoundland and Labrador Municipal Financing Corporation
- Newfoundland and Labrador Industrial Development Corporation
- Newfoundland and Labrador Consolidated Sinking Fund
- Office of the Chief Information Officer
- Public Sector Pension Plan Joint Trusteeship Transition Committee
- Public Service Commission
- Public Service Secretariat

*Entities with a December 31st fiscal year end:*

- Newfoundland Government Fund Limited
- Government Money Purchase Pension Plan
- Pension Investment Committee

All of the above entities (with the exception of the Public Sector Pension Plan Joint Trusteeship Transition Committee) have prepared separate annual reports to independently inform the public about their respective results. These reports have been tabled in the House of Assembly.

The Public Sector Pension Plan Joint Trusteeship Transition Committee was inactive during the 2009-10 fiscal year and because it shares the same fiscal year end as the Department, its reporting requirements are fulfilled through this annual report (please see Appendix A).

## Financial Resources and Budgetary Allocations:

The financial activities of the Department of Finance for fiscal year ending March 31, 2010 showed gross expenditures of $85,210,599 million, offset by related revenues estimated to be $3,833,423 million (see page 27 for further details). The following table provides additional information comparing expected to actual departmental expenditures.

| SUMMARY OF DEPARTMENTAL BUDGET | | |
|---|---|---|
| Expenditures | Original Budget $ | Actual $ |
| Salaries | 24,487,100 | 19,490,517 |
| Employee Benefits | 59,109,000 | 60,355,796 |
| Transportation and Communications | 999,100 | 783,201 |
| Supplies | 499,300 | 472,790 |
| Professional Services | 753,100 | 353,707 |
| Purchased Services | 1,819,500 | 1,260,312 |
| Property, Furnishings and Equipment | 158,400 | 195,070 |
| Loans and Advances | 500,000 | - |
| Allowances and Assistance | 75,000 | 346,050 |
| Grants and Subsidies | 10,208,000 | 1,953,156 |
| **Gross Expenditures** | **98,608,500** | **85,210,599** |
| Less: Related Revenue | (12,026,600) | (3,833,423) |
| Net Expenditures | 86,581,900 | 81,377,176 |

**Explanations of Variances Greater than $500,000:**

**Salaries** – Included in this expenditure is Government Personnel Costs which is a fund established for the settlement of salary anomalies which may occur across Government. During the 2009-10 fiscal year no such anomalies were identified which accounts for the majority of the discrepancy which occurred between the original and actual budget.

**Purchased Services** – Included in this expenditure was the anticipated leasing cost for the office space of the new Corporate Services (Financial) Division. The leasing arrangement was not finalized until December 2009, representing an eight-month cost savings, which accounts for the majority of the discrepancy which occurred between the original and actual budget.

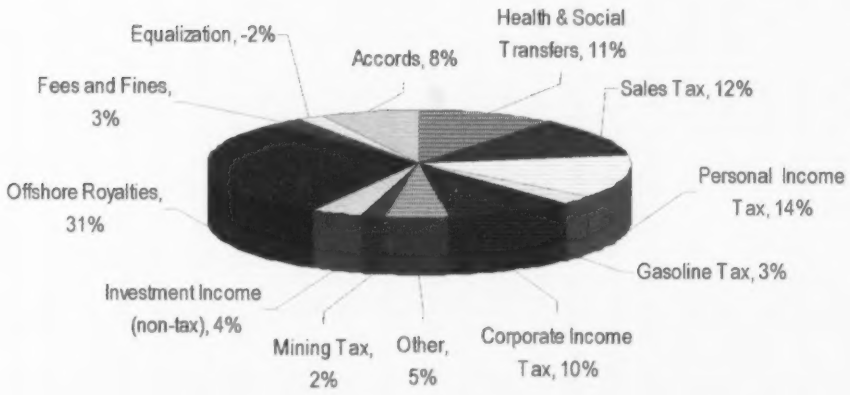
**Loans and Advances** – The purpose of this expenditure is to support qualifying business opportunities and industrial developments. During the 2009-10 fiscal year, requests for this type of particular funding were not received.

**Grants and Subsidies** – Included in this expenditure is funding for the Community Development Trust. During the 2009-10 fiscal year, this fund was not accessed which accounts for the majority of the discrepancy which occurred between the original and actual budget.

**Related Revenue** – The Community Development Trust fund is 100% recoverable from the Federal Government. Because this fund was not accessed during the 2009-10 fiscal year, the actual amount of related revenue was significantly lower than anticipated.

In addition to the related revenues identified as part of the Department of Finance's budgetary allocation, the Department has stewardship over substantially all of the current account revenues generated by the Province. During 2009-10, current account revenues totaled approximately $6.0 billion, of which about 31% is attributed to oil royalties. The following pie chart depicts provincial current account revenues by source.

## 2009-10 Current Account Revenue (Modified Cash Basis)




Expenditure and revenue figures included above are on a modified cash basis. The figures are un-audited and based on the information provided in the Report on *Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2010.* Audited financial statements are prepared on an accrual basis in accordance with the generally accepted accounting principles for the public sector. They will be made public upon the release of **Volume I – Public Accounts Consolidated Summary Financial Statements and Volume II - Consolidated Revenue Fund Financial Statements**.

Staffing Complement:

During the 2009-10 fiscal year the Department of Finance employed 404 people of whom 233 were permanent, 88 were temporary, 17 were contractual, and 66 were seasonal. The gender distribution of our staff complement was as follows:

**Summary of Employees by Gender**

| Employee Type | Female | | Male | | Total |
|---|---|---|---|---|---|
| | # | % | # | % | |
| **Permanent** | 145 | 62.2% | 88 | 37.7% | 233 |
| **Temporary** | 62 | 70.5% | 26 | 29.5% | 88 |
| **Contractual** | 5 | 29.4% | 12 | 70.6% | 17 |
| **Seasonal** | 62 | 93.9% | 4 | 6.1% | 66 |
| Total | 274 | 67.8% | 130 | 32.2% | 404 |

As of March 31, 2010, 15 active members of the Public Service Pension Plan were eligible for retirement and another 10 will become eligible during the 2010-11 fiscal year. Over the next five years it is anticipated that 82 employees will be eligible for retirement. The following table illustrates potential retirements for the next five years.

**Summary of Potential Retirees**

| Years of Eligibility | Number | Cumulative |
|---|---|---|
| **Current Eligibility** | 15 | 15 |
| **2010-11** | 10 | 25 |
| **2011-12** | 14 | 39 |
| **2012-13** | 10 | 49 |
| **2013-14** | 14 | 63 |
| **2014-15** | 19 | 82 |

Note: Pension data is maintained on a calendar year to coincide with the filing of personal tax returns. As of December 31, 2009 there were 336 active members in the Public Service Pension Plan employed with the Department of Finance. Temporary employees employed for less than 3 months and part-time employees do not participate in the Public Service Pension Plan. Both of these types of employees participate in the Government Money Purchase Pension Plan.

The headquarters for the Department of Finance is the Confederation Building, with staff dispersed throughout the East and West Blocks. Additionally the Department has some staff located in Mount Pearl at the Motor Registration Division, on Topsail Road (a newly renovated office space established to accommodate staff acquired as a result of the implementation of the Corporate Shared Services (Financial) model), Corner Brook and Grand Falls-Windsor (a new office location to accommodate the transfer of the Home Heating Rebate and Parental Benefits tax credit programs). Contact information for all office locations is available on-line at www.gov.nl.ca/fin.

## Report on Performance

The 2008-11 Strategic Plan for the Department of Finance (available on-line at www.fin.gov.nl.ca/fin) identifies three priority issues: Financial Planning; Financial Management; and Demographic Change. The purpose of this section is to report on progress made to date by comparing actual performance achieved during 2009-10 to the applicable expectations outlined in the Strategic Plan.

### ISSUE ONE: FINANCIAL PLANNING

Fiscal Planning

A key strategic direction of this Government is fiscal stability for the Province which requires a prudent fiscal approach to the management of provincial finances. Such an outcome can only be achieved by using an evidence-based fiscal planning process that is informed by the provision of comprehensive policy advice, timely and accurate information, and precise economic and fiscal analysis along the three cornerstones of an effective fiscal framework – revenues, expenditures and debt management.

During the 2009-10 fiscal year, the Department of Finance supported this strategic direction by ensuring that Government's long-term fiscal projections were reflective of such things as the rise and fall of the price of oil; the value of the Canadian dollar; production levels; and, the impacts of current and new resource projects. Much effort was also expended to ensure that Government was advised of potential debt reduction approaches and that fluctuation in Government's revenues, expenditures, and, debt and associated debt-service costs were monitored closely and incorporated appropriately into the Province's long-term fiscal forecast.

The following section provides additional details on how the Department of Finance supported Government's fiscal planning processes during the 2009-10 fiscal year.

2009-10 Objective: By March 31, 2010, the Department of Finance will have updated the long-term forecast of the Province to reflect the current economic and financial outlooks.

Measure: Updated long-term forecast

Indicators:

- Multi-year revenue forecast developed

The Department of Finance updated the Province's multi-year revenue forecast on a regular basis throughout the year to reflect changes in anticipated revenue sources. To facilitate this process, the Department initiated upgrades to its revenue forecasting model (an extensive complex mathematical computer-generated model) as a means of enhancing its ability to monitor the impacts

of such things as federal revenue streams (e.g., HST and PIT), federal transfer payments, economic performance, and other influential factors such as natural resource revenues streams (e.g., mining and mineral rights taxes).

An updated revenue forecast was developed and publicly released on December 7, 2009 in the Mid-Year Update and again on March 29, 2010 in support of the 2010 Budget process. The details of these updates can be obtained from the Department's website at www.gov.nl.ca/fin.

■ Forecast of cash requirements determined

In collaboration with other government departments, the Department of Finance monitored the Government's cash requirements and revised the provincial forecast accordingly to support Government's fiscal planning process. A revised cash requirement forecast was made public on Budget Day and included an estimate of $(959,295,000) for 2010-11 and a revised cash requirement of $(494,350,000) for 2009-10.

■ Multi-year expense forecast including both cash and non-cash items developed

The Department of Finance collaborated with other government departments to monitor government expenditures and update the expense forecast (which includes both cash and non-cash items). In support of this process, a new procedure was implemented to monitor, review and analyze the progress of the implementation of Government's infrastructure strategy. Analytical reports were consolidated and summarized on a weekly basis and used to inform Government's fiscal decision-making processes.

A revised expense forecast (including cash and non-cash items) for Government was publically released on December 7, 2009 in the Mid-Year Update and again on March 29, 2010 in support of the 2010 Budget process. Government's most recent multi-year expense forecast is as follows:

- 2010-11 - $6,985.7 million
- 2011-12 - $7,191.0 million
- 2012-13 - $7,173.1 million

The details of these updates can be obtained from the Department's website at www.gov.nl.ca/fin.

■ Economic forecast developed

The Department provided multiple updates on the provincial economic forecast throughout the 2009-10 fiscal year. Additionally, on December 7, 2009 the Department developed and released The Economic Review. This document (available at www.gov.nl.ca/fin) provided a performance review for key industry sectors such as Oil and Gas, Mining, and Fishery, as well as the latest provincial forecast for key economic indicators (e.g., Gross Domestic Product, personal income, and employment). An update was also provided on the economies of Canada and the United States.

On March 29, 2010, the Department also developed and released The Economy (available on-line at www.gov.nl.ca/fin), which is a multi-year economic forecast. This document, similar to The Economic Review, also provided a revised status report on key economic indicators.

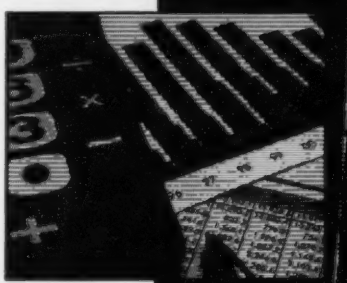
■ Review and analysis of the Province's tax competitiveness completed to ensure that the Province remains competitive to the extent fiscally prudent

In support of the 2010 Budget process, a detailed review of the tax systems in other jurisdictions was completed and compared to this Province's tax regime. The purpose of which was to identify options for Government to maintain its commitment to a competitive provincial tax system. Several tax reductions were announced on March 29, 2010, the details of which can be obtained on-line at www.gov.nl.ca/fin.

**Note: Revenue and expenditure figures identified above are subject to change upon release of the Public Accounts.**

## ISSUE TWO: FINANCIAL MANAGEMENT

Financial Management



In recent years, there has been an increased focus on transparency and accountability for all levels of government. The general public has come to expect a more open and accountable government; one that protects their interests, which includes the proper management of the public purse. In this Province the *Financial Administration Act* (FAA) confers various financial responsibilities and authorities pertaining to the stewardship of public money to the Department of Finance. As such, the Department ensures that public money is properly disbursed, collected, and invested and that the appropriate checks and balances are in place for accurate receipting, expenditure and recording of public funds.

Over the past couple of years the Department of Finance has been working towards the development and implementation of a corporate shared services approach to financial management. During the 2009-10 fiscal year, much was accomplished with respect to the implementation of the operational components of a new approach to the management of government employee compensation and benefits. Additionally, the Department continued to improve upon its internal auditing of government programs, policies and procedures and implemented new (or upgraded current) technologies to better support various types of financial functions. The information provided below offers additional details regarding the specific accomplishments achieved by the Department of Finance in support of a strengthened financial management function for Government.

2009-10 Objective: By March 31, 2010, the Department of Finance will have taken further actions towards strengthening financial management functions.

Measure: Actions taken to strengthen financial management functions

Indicators:

■ Additional components of the Corporate Shared Services (Financial) Model implemented
As part of the corporate shared services model for the financial management functions of Government, a new division was created to assume the responsibility for compensation and benefits issues for government employees. During 2009-10, this division became fully operational with approximately 45 employees. Actions were also implemented to initiate the development of a client service centre and a review all payroll policies, procedures and forms was commenced, the purpose of which is to standardize payroll processes across government.

Additionally, the Department developed a model for the administration of other financial management responsibilities such as accounts receivable management, accounts receivable collections, purchasing and accounts payable invoice processing. This model also included a strategically focused role for the various divisions across government who presently have responsibilities related to financial administration functions. Implementation of the revised accounts receivable collections function of the new model was commenced and the implementation of the remaining model components are anticipated to be completed during the 2010-11 fiscal year.

■ Areas for internal audit testing identified and audits commenced, using new audit guidelines and working papers
New methodologies for conducting internal audits were established and staff appropriately trained. Additionally, various types of internal auditing tools (e.g., guidelines for determining sample sizes, formats for completing working papers while conducting an audit and time-budgeting monitoring procedures) were developed and are currently being used by staff. Areas targeted for internal audit testing were identified using a risk-based approach, resulting in the completion of 34 audits and projects.

■ Proposals for the development of systems to support the preparation of the Province's Public Accounts and annual budget are evaluated and project implementation is initiated
During 2009-10, following an extensive consultation process with government departments to determine the requirements of a new budgeting system and financial requirements system, a request for proposals was released, which received responses from six vendors. As part of the implementation of this project, all proposals were reviewed and two vendors were asked to provide demonstrations. The preferred vendor was determined and a time schedule for completion of the project was developed. A Steering Committee was also established to oversee and manage the project and includes representatives from the Office of the Chief Information Officer, the Budgeting Division, and the Office of the Comptroller General. Preliminary messaging regarding the project was also delivered to all senior department officials.

■ New technologies implemented
Government's financial management functions are supported by a wide variety of complex computer-based systems which require continuous upgrades to both technical and software

components, as well as new/revised accounting standards, procedures and guidelines. As such, the following priorities were addressed during the 2009-10 fiscal year:

- The Financial Management System was enhanced to improve efficiencies related to cash management for bank reconciliation processes, approval processes for credit memos, direct printing of cheques from the Oracle system; and the issuing of US payments in US funds.
- To support the functions of the new corporate services approach to financial administration, the Financial Management System was also adjusted to include a batch tracking system for payroll and financial related documents and a new tracking system was implemented to manage support requests logged by clients.
- A quality assurance process for financial documents was developed and implemented. This included the development and implementation of an electronic contents management system (i.e., TRIM).
- Work progressed on the development of a system to administer Government rebate programs.
- In cooperation with the Office of the Chief Information Officer, the Department completed the design and development of a Centralized Web Receipting System and finalized plans for implementation. This system will ultimately facilitate the on-line acceptance of credit and debit cards for participating government departments wishing to provide their clients an alternative payment method.
- The Department (again in cooperation with the Office of the Chief Information Officer) performed preliminary scoping work on a government-wide counter receipting system (currently referred to as central cash), which builds upon the Centralized Web Receipting System. The intent of this system is to provide consistency, standardization and significant improvement in the efficiency and integrity of the counter receipting function.

■ Training needs assessment for Corporate Shared Services staff completed

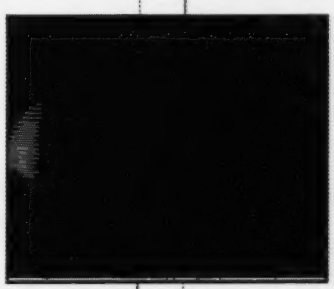
As part of the development of the new corporate shared services model for the management of financial functions across Government, descriptions were developed for the required positions within the proposed organizational structure. During this process an inventory of necessary skills was compiled for those jobs positioned within the Department of Finance. As the newly classified positions were filled within the Compensation and Benefits Division, skills gaps were identified and training opportunities were provided as appropriate. As positions are filled within the new Corporate Financial Services Division, a similar skills analysis will be completed and training provided as appropriate.

ISSUE THREE:

## ISSUE THREE: DEMOGRAPHIC CHANGE

Government has recognized the dramatic shifts in demographic characteristics as a critical strategic priority because of its implications on the types of, and the mechanisms used to deliver, programs and services provided to the citizens of this Province. As the Province's central source of demographic data and analysis, the Department of Finance must therefore ensure it has the capacity required to provide information that is accurate and reflective of the broadly based demographic changes within the Province.

To support this strategic direction, the Department of Finance has been working to identify the current and future potential gaps in its demographic data and to identify and develop new approaches to demographic data collection and analysis that account for and reflect these population shifts. The performance information presented below provides specific details regarding the Department's accomplishments during the 2009-10 fiscal year.



2009-10 Objective: By March 31, 2010, the Department of Finance will have developed a plan to address demographic information gaps.

Measure: Plan developed to address information gaps

Indicators:

■ Population projection model updated

During 2009-10 the Department completed a major update of its population projection model and revised its 15-year population projections. The revised projections included details on age and gender and are available for various administrative geographies (e.g., school districts, regional health authorities). These projections are now used by government departments and agencies in their planning process and can also be accessed by business and the general public on-line at www.gov.nl.ca/fin.

■ Information gaps prioritized

Demographic data gaps were identified and prioritized based on the result of internal consultations with government departments and agencies and a review of national demographic sources.

■ Methodology to address information gaps determined

Various initiatives were identified as means to address those data gaps deemed to be most critical. These initiatives included the following:

- Population projection tools that are current and up-to-date
- Regional population projections that are revised on a timely basis
- Further development of social and economic spatial analytical tools (methods for organizing, analyzing and visualizing large collections of spatially related information through the use of GIS technologies to provide the ability to dynamically link large numbers of complex interrelated data that have social and economic relevance to stakeholders)

- Enhancement of data collection capacity by developing survey sample frames
- Development of new data sources by exploring the potential to tap into data currently being captured for administrative purposes

The Department has already initiated the development or implementation of some of these strategies and has dedicated a resource to the development of alternative data sources for the 2010-11 fiscal year.

■ Prepared information on the gaps identified for consideration by Government

A document was prepared outlining Government's current demographic data gaps and future needs. This document also included strategies to address and enhance the Department's capacity to meet Government's demographic data requirements.

## Shared Commitments

The mandate of the Department of Finance requires that it develop effective working relationships with other government departments and agencies to achieve strategic and operational priorities. As such, much of the performance achieved during the 2009-10 fiscal year (and already reported on in the previous section of this document) was made possible because of the Department's partnerships with other government departments and agencies and a shared commitment to achieving common results. Additional accomplishments made possible by these collaborative relationships are detailed below.

### Budget Preparation and Consultations

The budget preparation process is one which is integrated, collaborative, and consultative, involving all government departments, community groups, municipalities, health boards, school boards, business groups, professional associations, various types of special interest groups, and individual citizens within the Province.

During the fourth quarter of the 2009-10 fiscal year the Department of Finance organized a series of town hall meetings in 13 locations across Newfoundland and Labrador. The purpose of each meeting was to provide interested parties the opportunity to express their personal opinions on budgetary priorities directly to the Minister of Finance. The Department also received approximately 200 written submissions in addition to 195 personalized letters from parents of Roncalli School. The 2010 Budget was presented in the House of Assembly on March 29, 2010.

### Canadian Century Research Infrastructure (CCRI) Project

In collaboration with seven university centres across Canada, the Department of Finance completed a 5-year, multi-million dollar national initiative to digitize the 1911 to 1951 census records. This unique tool is designed to allow new research into the making of modern Canada. In partnership with Memorial University and six other universities across Canada, the Newfoundland and Labrador Statistics Agency digitized the Atlantic Canada portion, including all pre-confederation records for Newfoundland and Labrador. This has been recognized as the most comprehensive humanities and social sciences research project in Canadian history, and will open up other research opportunities in this Province.

### Work Environment Survey

During the summer of 2009 the Department partnered with the Public Service Secretariat to administer a work environment survey. Over 900 employees from Provincial Government Departments and Central Agencies participated in this event. The purpose of the survey was to get feedback on issues such as job satisfaction, quality of supervision and organizational commitment from public service employees on a regular basis and to use that information to develop the workplace. Corporate results were released on March 31, 2010 by the Clerk of the Executive Council.

### Modeling Greenhouse Gas (GHG) Emissions and Carbon Pricing

During the 2009-10 fiscal year the Department participated in an initiative of the Office of

Climate Change, Energy Efficiency and Emissions Trading. The project required the development of a model which can be used to:

- Forecast GHG emissions for Newfoundland and Labrador up to 2030.
- Construct marginal abatement cost curves that illustrate the potential for Newfoundland and Labrador to reduce greenhouse gas emissions. These cost curves show the emissions reductions available at various strengths of carbon pricing and reveal the costs that businesses and consumers incur to reduce emissions.
- Explore the magnitude of emissions reductions achieved by different trajectories of carbon pricing combined with regulatory policies. For each carbon price path, changes in provincial emissions, energy consumption and key energy and economic indicators are assessed.

The Department of Finance served as the primary source of information and analysis on key economic indicators. The final report titled "A Study to Assess the Impacts of Carbon Pricing in Newfoundland and Labrador" was released on April 14, 2010 and is available on-line at www.exec.gov.nl.ca/exec/cceeet/index.html.

## Highlights and Accomplishments

In addition to the results reported on in the Report on Performance section of this document, the following provides information on other key accomplishments of the Department of Finance.

### Tax Policies and Incentives

A strategic direction of Government is to implement personal and business taxes that are competitive within Atlantic Canada. During the 2010 Budget development process, the Department of Finance completed a considerable amount of research and analysis to identify tax saving options for the citizens of this Province. On March 29, 2010 this Government implemented numerous business and personal tax savings initiatives such as the following:

- Age Amount non-refundable tax credit increased from $3,681 to $5,000.
- Low Income Seniors' Benefit increased from $803 annually to $900.
- Effective July 1, 2010, personal income tax rates were reduced as follows:
  - From 12.8% to 12.5% on the second income bracket
  - From 15.5% to 13.3% on the third income bracket
- Effective for the 2009 tax year, the Low Income Tax Reduction income thresholds were increased from $13,511 to $15,911 for individuals and from $21,825 to $26,625 for families. Annual investment increased from $6 million to $16 million.
- Effective as of January 1, 2009, the corporate income tax small business threshold was increased from $400,000 to $500,000.
- The dividend tax credit rate for eligible dividends was increased from 6.65% to 9.75%, creating a more competitive tax rate on dividend income.
- Effective for the 2009 tax year, the Labour-Sponsored Venture Capital Tax Credit rate increased from 15% to 20% and the eligible annual investment increased from $5,000 to $10,000.
- Effective April 1, 2009, a tax exemption for gasoline consumed by off-road equipment used in onshore oil exploration was implemented.
- Effective April 1, 2009, commercial electrical permit fees were reduced. For projects valued up to $500, the fee was reduced from $200 to $50 and for projects valued between $500 and $2000, the fee was reduced from $200 to 10% of the value of the project.

### Home Heating Rebate Program for 2009-10

In recognition of current usage and costs associated with home heating, changes were introduced to the 2009-10 Home Heating Rebate Program. Regardless of the type of energy source purchased to heat the home, individuals and families with a net income of $40,000 or less are now eligible to receive a rebate of up to $250 and up to $500 for those living in coastal Labrador communities. Individuals and families with net income up to $35,000 will receive a full rebate. The rebate gradually decreases as income levels rise to $40,000, with no eligible individual or family receiving less than $100.

These changes are another example of how the Department of Finance and the Williams Government are committed to providing programs and services that assist the residents of this province in their everyday lives. The Home Heating Rebate Program is recognized as a means of providing financial support to address the high cost of heating homes regardless of the heating source. The majority of residents heat their homes with electricity. Therefore rebate rates must reflect what is being used in homes in Newfoundland and Labrador.

**Provincial Community Accounts Endorsed by Senate Committee**

The System of Community Accounts (developed and maintained by the Newfoundland and Labrador Statistics Agency) was recognized and endorsed by the Standing Senate Committee on Social Affairs, Science and Technology in its final report of the Senate Subcommittee on Population Health, A Healthy, Productive Canada: A Determinant of Health Approach. The report released by the Senate Committee stated the following:

> "It is the view of the Subcommittee that the Community Accounts has been very successful in linking information about population health, community well-being, and economic development. We are particularly impressed by the progress achieved in Newfoundland and Labrador in the implementation of a sound population health database infrastructure and are pleased to see that Nova Scotia and Prince Edward Island have adopted a similar database infrastructure model. We believe that such a database is a key asset in the development and implementation of a pan-Canadian population health policy. Therefore, the Subcommittee recommends: That the Government of Canada support the development and implementation of Community Accounts, modeled on the Newfoundland and Labrador Community Accounts, in all provinces and territories".

To access the System of Community Accounts, visit www.communityaccounts.ca.

***Revenue Administration Act***

The 2009-10 fiscal year saw the enactment and implementation of a new piece of tax legislation known as the *Revenue Administration Act*. The purpose of this Act is to consolidate administrative provisions of seven tax statutes and reduce the compliance burden on taxpayers. Previously, each tax statute had its own administrative provisions respecting such items as filing requirements, record retention, penalties, and enforcement. In most cases each statute also had its own regulations. There were also a number of inconsistencies among statutes for similar issues. This arrangement created a significant burden on both taxpayers and Government. Through the amalgamation of these tax provisions into one single statute, all of these inconsistencies and administrative burdens were mitigated.

### Unfunded Pension Liability

The Newfoundland and Labrador Pooled Pension Fund is a fund established to finance member benefits of various Government-sponsored pensions plans (e.g., Public Service Pension Plan, the Teacher's Pension Plan and the Uniformed Services Pension Plan). Consistent with Government's strategic direction to obtain and maintain fiscal stability for the Province, the Department of Finance, in collaboration with the Pensions Investment Committee, works to develop a long-term investment strategy that produces returns having a positive impact on the funded ratio of the pension plans.

Over the past several years poor performances on the Canadian and International investment markets have produced unfavourable results for this fund. However, due to the recent recovery of these markets, the 2009-10 fiscal year proved to be one of the most positive years in the history of the Newfoundland and Labrador Pooled Pension Fund. For the fiscal year ended March 31, 2010, this fund's overall rate of return was 26.2% as compared to -21% in the previous year.

Additional details respecting this fund's performance for the reporting year can be found on-line at www.gov.nl.ca/fin in the 2009 Annual Report for the Pensions Investment Committee.

### 2009 Public Service Award of Excellence

On June 15 at the Sheraton Hotel, two employees from the Department of Finance – Terry Quinlan and Susan Cull - were honored by Premier Danny Williams and Gary Norris, the Clerk of the Executive Council, at an awards ceremony. These two individuals received their Public Service Award of Excellence in recognition of their ingenuity, dedication and creativity in the development of a tool which automatically generates family trees for all individuals living within the Province of Newfoundland and Labrador. By combining unique provincial population data with advanced computer technology having sophisticated statistical techniques, the team was able to provide instantaneous access to information critical to medical research in a manner which is more cost efficient and better able to protect patient confidentiality. Until the development of this automated tool, genetic researchers spent a considerable amount of time (i.e., years) and money conducting genetic research through one-on-one personal interviews with members of a community.

### New Regional Office

On February 2, 2010, Minister Marshall officially opened a new office in Grand Falls-Windsor for the administration and delivery of the Home Heating Rebate Program and the Parental Benefits Program. The decision to relocate these programs to the central region represents another extension of Government's commitment to create employment opportunities across the Province. With the seasonal employment of approximately 25 residents, further support is provided to the rebuilding process of this community.

### Strong Provincial Credit Rating

The Province's ability to continue to maintain a steady financial position while navigating the rough waters of the current economic climate was recognized by two credit rating agencies in a span of less than six months. This recognition reaffirmed Government's strong fiscal management and governance practices. It was another clear indication that the plan put in place by this Government is leading the Province down the right path to a sustainable and prosperous future.

## Looking Forward - The Year Ahead

### Potential Opportunities and Challenges:

In 2010 the Gross Domestic Product for Newfoundland and Labrador is expected to increase 4.0%. With this anticipated economic recovery, employment is expected to grow 2.3% and the unemployment rate is predicted to decrease by 0.6 percentage points to 14.9%. Population is expected to continue its upward trend, despite anticipated fluctuations on a quarterly basis. This upward trend can be largely attributed to positive net migration which is offsetting the natural decline in population (more deaths than births).

The Department of Finance must take these predictions into consideration and identify those opportunities and challenges that will impact its ability to effectively fulfill its mandated responsibilities and achievement of strategic priorities. The information provided below further expands on the consequences of these economic and demographic predications to the operations of the Department of Finance.

- Potential Opportunities:
  - The recent economic recession has motivated both the public and private sectors to implement tighter and more efficient financial controls as a means of sustaining fiscal stability. For the Department of Finance, this has proven to be an opportunity to enhance Government's prudent management of the public purse by developing and implementing a corporate shared services model for the management of financial functions. As discussed on page 13 in the Report on Performance section of this report, during 2009-10 the Department of Finance achieved a significant step towards the standardization of policies and practices and the consolidation of services through the establishment of the Compensations and Benefits Division. During 2010-11 the Department will continue to improve upon the management of Government's compensation and benefits and will implement an accounts payable processing function across Government to improve upon the management of invoice payment procedures.

- Potential Challenges:
  - The ability of the Department of Finance to provide strategic leadership across the public service on the financial and economic implications of its policy decisions and to oversee the management and control of provincial finances to ensure appropriate use of public funds is contingent upon having a skilled and knowledgeable workforce. Increased globalization, the pending retirement of the baby boom generation and a population level that has seen only minor increases has created a very small group of qualified candidates. Consequently, competition amongst employers has intensified. The Department must therefore focus on targeted recruitment and retention activities to attract highly skilled personnel and to retain our existing qualified and knowledgeable workforce.

  - While the economy is expected to recover, it will be a slow and gradual process. Therefore the Department of Finance will continue to be challenged to ensure the

prudent management of its expenditures and the development of a fair and reasonable budget for the coming fiscal year.

- There is a growing requirement for more detailed and timely demographic and labour market information and analysis at a sub-provincial level. The Department of Finance is challenged to address this need because while current national statistical agencies provide a wide range of quality information, it is usually out-dated and at a level which does not support specific information needs at a sub-provincial (i.e., regional) level. Additionally there is a new awareness and prioritization of evidence-based decision making and an increasing pressure for policies and proposals to be reviewed from an economic quantitative perspective. As such the Department will continue to be challenged to research and develop innovative approaches to address and support these requirements.

- Government is promoting a growing and diversifying economy. There are numerous opportunities occurring in a wide range of economic sectors with much diversified characteristics that present many challenges for economic analysis. Analyzing a business proposal within this diversified framework of economic sectors and government funding programs is a challenge. The Department must be able to provide a standardized approach to project analysis and report results in a concise and meaningful way within an environment that is inherently attempting to satisfy multiple and diverse expectations.

*Intended Results for the 2010-11 Fiscal Year*

The following section identifies the Department's strategic focus for the 2010-11 fiscal year in the three priority areas identified in its 2008-11 Strategic Plan.

## ISSUE ONE: FINANCIAL PLANNING

2010-11 Objective: By March 31, 2011, the Department of Finance will have updated the long-term forecast of the province to reflect additional economic and financial outlooks.

Measure: Updated long-term forecast reflective of economic and financial outlooks

Indicators:

- Maintained an up-to-date multi-year revenue forecast
- Maintained an up-to-date multi-year expense forecast
- Led the preparation of Government's annual budget
- Maintained an up-to-date economic forecast
- Developed options for maintaining the Province's tax competitiveness within a prudent fiscal context

## ISSUE TWO: FINANCIAL MANAGEMENT

2010-11 Objective: By March 31, 2011, the Department of Finance will have strengthened the financial management functions throughout Government.

Measure: Strengthened financial management functions

Indicators:

- Implemented the accounts payable processing function of Government's Corporate Shared Services (Financial) Model to further strengthen financial management functions across all government departments
- Implemented a service centre to efficiently manage client inquiries related to government employee compensation and benefits issues
- Improved upon the systems and processes used to support the preparation of the Province's Public Accounts and Government's annual budget
- Initiated technical upgrades to Government's Financial Management System and improved upon its corporate reporting capabilities
- Supported the financial integration component of computer systems designed to administer various types of programs across Government

## ISSUE THREE: DEMOGRAPHIC CHANGE

2010-11 Objective: By March 31, 2011, the Department of Finance will have implemented appropriate priority actions related to enhancing demographic data and information.

Measure: Implemented priority actions to enhance demographic data and information

Indicators:

- Improved capacity to collect demographic data
- Progressed towards the development of new data sources
- Maintained up-to-date population projections
- Progressed towards the development of data on current births and deaths at a sub-provincial level to improve upon the accuracy rate of population estimates

  (Note: Data presently used for population estimates is derived from census data generated by Statistics Canada. This data are several years old and are primarily specific to only major urban centres within the Province.)

## Financial Information

Expenditure and revenue figures included in this document are based on public information provided in the **Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2010**

**(Unaudited)**

| | | Estimates | |
|---|---|---|---|
| | Actual $ | Amended $ | Original $ |
| **EXECUTIVE AND SUPPORT SERVICES** | | | |
| 1.1.01 Minister's Office | 290,780.00 | 3,870,000.00 | 387,000.00 |
| **General Administration** | | | |
| 1.2.01 Executive Support | 1,384,286.00 | 1,432,100.00 | 1,439,700.00 |
| 1.2.02 Treasury Board Support | 376,376.00 | 392,900.00 | 391,900.00 |
| 1.2.03 Administrative Support | 306,062.00 | 402,100.00 | 347,900.00 |
| **Total: General Administration** | **2,066,724.00** | 2,227,100.00 | 2,179,500.00 |
| **General Government** | | | |
| 1.3.01 Government Personnel Costs | 60,060,465.00 | 62,061,800.00 | 62,061,800.00 |
| **TOTAL: EXECUTIVE AND SUPPORT SERVICES** | **62,417,969.00** | 64,675,900.00 | 64,628,300.00 |
| **FINANCIAL ADMINISTRATION** | | | |
| **Financial Planning and Benefits Administration** | | | |
| 2.1.01 Pensions Administration | 116,576.00 | - | - |
| 2.1.02 Debt Management | 442,461.00 | 559,100.00 | 582,100.00 |
| 2.1.03 Budgeting and Insurance | 1,437,518.00 | 1,595,700.00 | 1,595,700.00 |
| 2.1.04 Financial Assistance | 1,950,906.00 | 2,900,000.00 | 2,900,000.00 |
| 2.1.05 Special Assistance | 346,050.00 | 355,000.00 | 75,000.00 |
| 2.1.06 Financial Assistance | - | 500,000.00 | 500,000.00 |
| **Total: Financial Planning and Benefits Administration** | **4,293,511.00** | 5,909,800.00 | 5,652,800.00 |

| | Actual $ | Estimates Amended $ | Original $ |
|---|---|---|---|
| **Taxation and Fiscal Policy** | | | |
| 2.2.01 Tax Policy | 955,293.00 | 1,061,700.00 | 1,078,000.00 |
| 2.2.02 Fiscal Policy | 405,611.00 | 448,800.00 | 480,100.00 |
| 2.2.03 Project Analysis | 583,087.00 | 601,800.00 | 578,800.00 |
| 2.2.04 Tax Administration | 3,480,916.00 | 3,884,500.00 | 4,124,500.00 |
| **Total: Taxation and Fiscal Policy** | **5,424,907.00** | 5,996,800.00 | 6,261,400.00 |
| **Economics and Statistics Branch** | | | |
| 2.3.01 Economics and Statistics | **2,363,881.00** | 2,034,200.00 | 2,034,200.00 |
| **Office of the Comptroller General** | | | |
| 2.4.01 Office of the Comptroller General | 4,025,481.00 | 4,919,000.00 | 5,094,000.00 |
| 2.4.02 Corporate Services | 2,851,427.00 | 3,046,200.00 | 2,911,200.00 |
| **Total: Office of the Comptroller General** | **6,876,908.00** | 7,965,200.00 | 8,005,200.00 |
| **TOTAL: FINANCIAL ADMINISTRATION** | **18,959,207.00** | 21,906,000.00 | 21,953,600.00 |
| **TOTAL: DEPARTMENT** | **81,377,176.00** | 86,581,900.00 | 86,581,900.00 |

Note: The audited financial statements will be made available to the public when the **Volume I – Consolidated Summary Financial Statements** and the **Volume II – Consolidated Revenue Fund Financial Statements** are tabled in the House of Assembly.

# Appendix A

**Public Service Pension Plan Joint Trusteeship Transition Committee Annual Report 2009-10**

The Agreement on Pensions, which forms part of the current Public Service Collective Agreement, mandated the establishment of a Joint Trusteeship Transition Committee (the Committee). The mandate of this Committee is to recommend to the relevant parties, a joint pension trust structure to govern the activities of the Public Service Pension Plan (PSPP). Under this arrangement, an independent board of trustees would be responsible for the administration of the PSPP, including the setting of benefits and investment of the Fund.

The Committee includes representatives of the five unions participating in the PSPP, Government and employers such as Newfoundland and Labrador Hydro and the Newfoundland and Labrador Health Board Association.

Originally, this process was targeted for completion in Spring 2003. A revised target was set for April 2008, based on the current collective agreements. During the initial discussions, the union representatives of the Committee indicated that until the issue of the unfunded pension liability was fully resolved, they were not prepared to move forward on the mandate of this Committee. As a result, the Committee has not met since 2003. If the Committee does become active again, the planning and reporting requirements of the *Transparency and Accountability Act* will be fulfilled in a timely manner.

# Department of Finance

Annual Report For Fiscal Year Ending

March 31, 2010

Newfoundland
Labrador